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Monthly Statistical Report

Prepared by the Finance, Accounting, and Statistics Department

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JULY 1989

SUMMARY

Total imports rose to 50 percent of domestic deliveries in July, the result of an above-average inventory build combined with this year's accelerated decline in domestic crude oil production and continued, though moderating, growth in consumption. A similar monthly share for imports had previously been experienced only for a few months in 1977.

July's volume of imports, at almost 8.6 million B/D, reached a new recent-year high, although it reflected above-average additions to inventory as well as supplies for immediate needs. Nevertheless, imports' share of domestic deliveries has risen substantially in the past several years, from 31.5 percent in 1985 to an average 46.2 percent for the first seven months of 1989. This is still slightly short of the annual high of 47.7 percent set in 1977.

Although in recent previous years, consumption increases have accounted for about two thirds of the growth in imports while declining production largely accounted for the remainder, the situation has shifted so far in 1989. This year, consumption growth has slowed, but the reversal of Alaskan production's previous upward trend has accelerated the decline in domestic crude oil production—making declining production the largest contributor to this year's increasing imports.

For July, domestic crude oil production fell by 574 thousand B/D or over 7 percent from one year earlier. Alaska contributed 234 thousand B/D to the decline; however, roughly half of that state's year-to-year drop was attributable to a temporary cutback due to maintenance work. Production in the lower 48 was down 340 thousand B/D or nearly 6 percent, year to year, and has declined by more than 20 percent since early 1986.

Following the first half's increase in deliveries of less than one percent, July's deliveries rose 1.7 percent versus one year earlier. However, it is likely that, because of higher prices and moderating growth in the economy, actual consumption growth has been slowing, rather than accelerating. Preliminary data for GNP, for example, show only a 2.8 percent, year-to-year increase for the second quarter, contrasting with 4.4 percent for last year as a whole. Based on trends in consumption indicators, we estimate that actual usage in July was growing at a rate of about 1 to 1.5 percent.

Utilization of refinery capacity in actual operation, running at over 93 percent for July, was close to highs experienced over the past fifteen years. Gasoline production continued at June's level of nearly 7.4 million B/D, which, similar to June's record, was the most ever produced for that month. Total inventories rose 21 million barrels during July, about twice the average rate of the previous five years.

PRODUCT SUPPLIED [1]

Gasoline

CONSUMPTION GROWTH MODERATING. Though gasoline deliveries rose 1.4 percent in July versus one year earlier, slower economic growth and prices higher than a year ago are likely continuing to depress actual consumption increases. Travel for May, the latest month for which data are available, continued to moderate from prior months, showing only a 2.5 percent increase year to year—a full percentage point less than in 1988. With the possibility that increases in travel may have continued to slow somewhat since then, underlying consumption growth may have slipped to 0.5 to 1 percent most recently.

Distillates

DELIVERIES' RISE STRONGER THAN FOR CONSUMPTION. July's 4.6 percent increase in deliveries, on the surface, appears relatively strong. However, as with other major products, it is possible that part of this reflects nonprimary inventory increases rather than unusual strength in underlying consumption.

Consumption growth, rather, appears to be continuing to moderate. In the trucking segment, overall diesel truck traffic has likely not suffered as much as the for-hire sector of the industry, for which an 8 percent drop in activity has recently been reported. However, overall on-highway diesel growth is currently estimated at only about 2 percent—less than half the growth experienced last year.

API ESTIMATES

	JULY		YEAR-TO-DATE	
	Million B/D	Percent Change	Million B/D	Percent Change
Total domestic deliveries	17.0	1.7	17.1	0.5
Crude production[2]	7.5	(7.1)	7.7	(6.4)
Total imports[3]	8.6	17.9	7.9	10.0
Stocks (million bbl)[4]	1,085	0.6	na	na

Rail traffic, too, has weakened, falling 7 percent, year to year, for July. Declines in coal shipments, and to a lesser extent, grain shipments, accounted for much of the decline. However, even excluding these commodities, traffic would still have shown a slight drop. With slower growth in industrial and other end uses as well, we estimate that distillate consumption has continued to rise, but perhaps at only about 1.5 percent most recently, compared with a 4.9 percent increase in 1988.

Residual Fuel Oil

DELIVERIES FALL 3.5 PERCENT.

Deliveries of residual fuel oil are estimated to have been 1,174 thousand B/D, representing an increase of 4.8 percent from June but a 3.5 percent decline from July 1988. The July estimate reflects a slowing trend in deliveries growth that has taken place during the past several months; thus the month-to-month increase is primarily the result of weak deliveries in June rather than unusual strength in July.

The electric utility sector accounts for much of the year-to-year decline. Electricity generation is estimated to have declined by 0.7 percent from levels of last July as a result of weather that was cooler than during last year. In addition, low oil prices bolstered last July's deliveries to high levels at the expense of natural gas, contributing to much of this July's year-to-year decline in total residual fuel oil deliveries. This decrease would have been slightly larger had it not been for occasional interruptions of natural gas due to pipeline repair and maintenance.

Deliveries to the industrial sector are believed to have increased only slightly from levels of last July as a result of the slowdown in the growth of industrial activity. A slight increase in secondary stocks, which had apparently declined during the first half of this year, is believed to have accounted for most of the small year-to-year increase.

Bunker fuel deliveries are believed to be below levels of last year despite an apparent uptick in activity in most regions during the past few weeks. The East and Gulf Coast markets, however, were reported to have been initially slow for much of July with activity showing some apparent strength by the end of the month. Although recent West Coast demand is believed to have risen substantially, activity in that region is believed to be only slightly higher than that of the previous year.

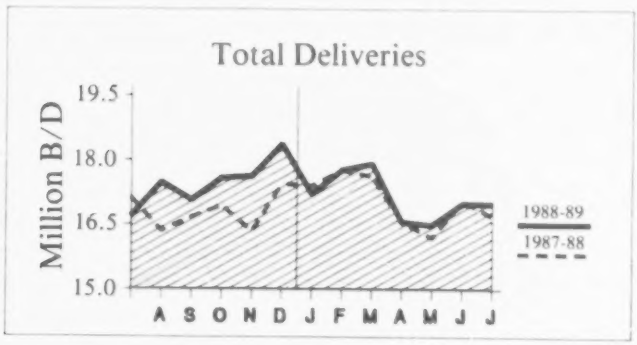
Kerosine Jet Fuel

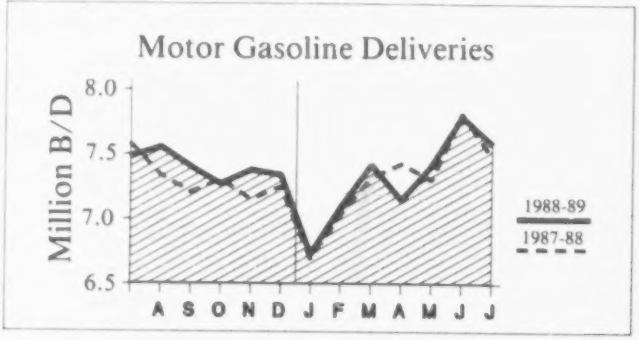
AIR TRAFFIC FLAT BUT DELIVERIES JUMP.

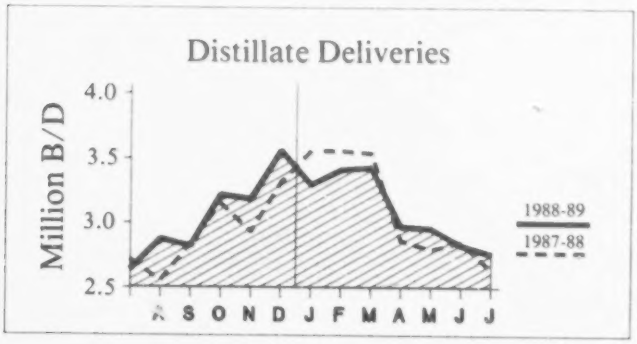
Among the major products, the discrepancy between probable consumption and deliveries growth was especially apparent for kerosine jet fuel in July. The month's deliveries jumped nearly 9 percent, following several months of minor increases or even year-to-year declines.

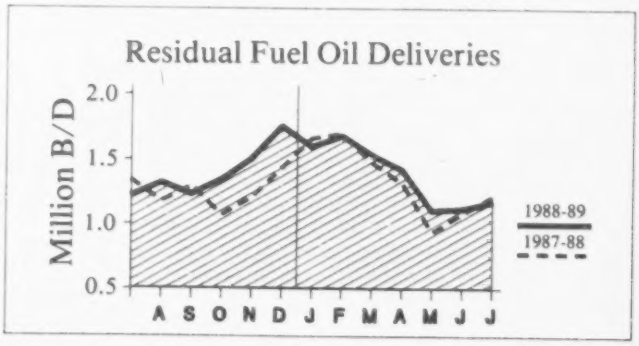
But recent trends in jet traffic have been in strong contrast to July's deliveries jump. Although revenue passenger-miles have shown some growth recently after several months of declining or flat performance, this has not necessarily translated into increased aircraft mileage. In June, for example, revenue passenger miles rose about 5 percent, year to year, but mainly because of increased load factors. Miles flown are estimated to have been only roughly even with a year ago.

Thus, even though July's large increase brings the year-to-date rise in deliveries to 1.6 percent, actual consumption is estimated to be continuing flat versus last year.









Other Oils

UP 1.4 PERCENT FOR JULY. Deliveries of other oils were estimated to have been 4,100 thousand B/D, representing an increase of 1.4 percent from July 1988. The year-to-year increase signifies an apparent continuation of a moderate but steady trend in deliveries growth. However, other indicators suggest that growth in direct consumption has been somewhat less than that of deliveries.

Deliveries of petrochemical feedstocks are believed to have been somewhat higher than those of last July, but the trend is believed to have slowed recently. In July, small increases in deliveries of lighter products were reported to be offset by declines in the heavier feedstocks. Butanes, which had been gaining increased acceptance as a feedstock during the past several months, are reported to have levelled off more recently.

Asphalt and road oil deliveries are believed to have recovered some of the earlier lost ground as a result of improvement in the weather, but are believed to remain below those of last July. Budgetary constraints are reported to have hampered building and maintenance activity in several regions.

SUPPLY [1/]

Production

MORE RAPID DECLINE CONTINUES. Domestic crude oil production fell 574 thousand B/D, or over 7 percent, in July from a year ago. Even without the temporary reduction in Alaskan production due to maintenance work, which accounted for about half of that state's 234 thousand B/D decline, Alaska would still have contributed substantially to the overall decline in U.S. production, as it has in each of the past nine months.

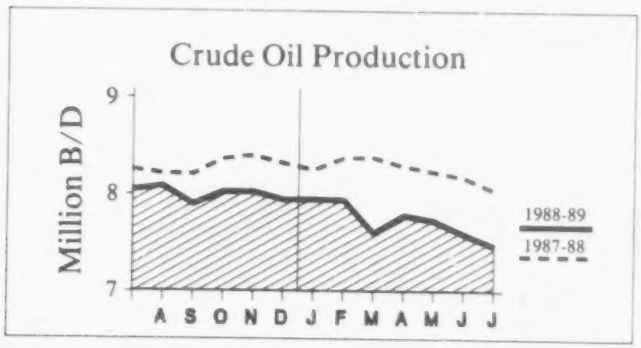
Production in the lower 48 continued its decline as well, falling 340 thousand B/D or nearly 6 percent, year to year. Since early 1986, production outside Alaska has fallen by 1.5 million B/D or more than 20 percent, due not only to reduced drilling of new wells, but also to less favorable economics for the maintenance of existing wells.

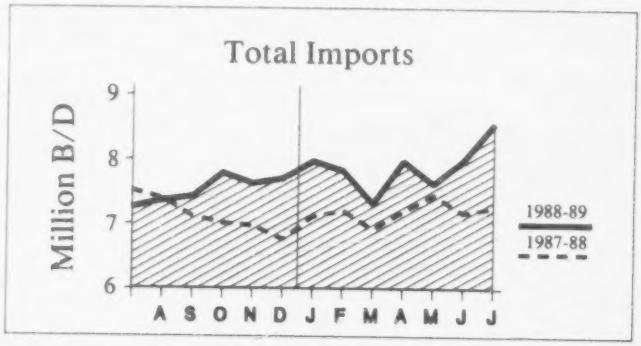
Well servicing activity so far this year has been proceeding at a level about even with the same period last year, but continues to be well below levels of only a few years ago. The number of active well-servicing rigs for the first half of 1989 was down about 28 percent from the same period in 1985.

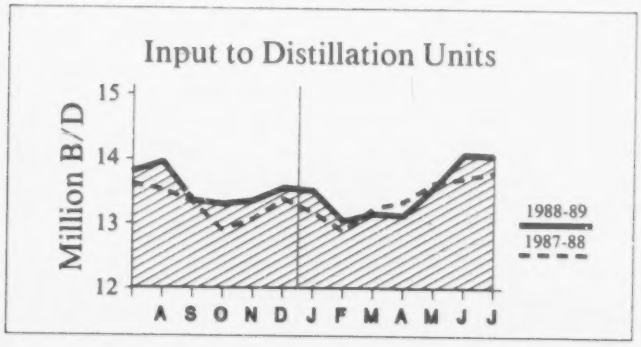
Completion of new wells, however, has continued to decline in the past year. According to the latest API **Quarterly Completion Report,** overall well completions for the first half were down by a fourth from one year earlier, attributable mainly to a decline in oil well completions. Gas completions, in fact, were estimated to have risen slightly. Exploratory oil well completions for the same period also declined and were less than a third of the level of four years ago.

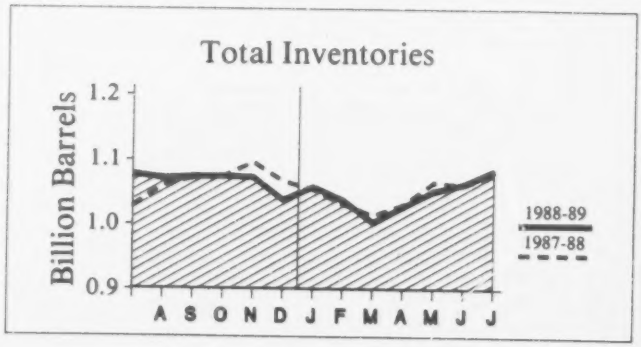
Imports

IMPORTS' SHARE REACHES 50 PERCENT. For the first time since mid-1977, total monthly imports reached 50 percent of domestic deliveries in July. Just as for the several scattered months in 1977 when this had previously occurred, a longer-term upward trend in imports, along with short-term swings which easily









deviate by half a million B/D or more from the trend in a given month, combined to push monthly imports over the half-way mark.

Though unusually strong imports in July were partly responsible for the month's high import share of 50.4 percent, if the decline in domestic production and growth in consumption continue at recent rates, such import shares are likely to become more frequent.

Only four years ago, the country's reliance on imports was 31.5 percent. But rising consumption and falling domestic production have boosted imports from 4.9 million B/D in 1985 to 7.9 million B/D for the first seven months of 1989. This has brought U.S. reliance on imports to 46.2 percent for the year to date, still slightly short of the annual record of 47.7 percent set in 1977.

Reflecting the available sources of additional supplies on world markets, an increasing portion of imports have come from OPEC producers, and the Middle East in particular. OPEC's share of U.S. imports has risen from 36 percent in 1985 to 50 percent for the first five months of this year. Imports from the Persian Gulf, which accounted for only 6 percent of U.S. foreign supplies in 1985, now amount to more than one fifth.

Though crude oil imports were substantially higher in July compared with one year earlier, product imports were roughly even. Imports of gasoline and components were off 89 thousand B/D from strong levels of a year ago, while distillates rose 100 thousand B/D from last July's below-trend imports. Residual fuel oil imports, though up 41 thousand B/D from the weak level of last July, at 520 thousand B/D, were still among the lowest monthly levels of the past twelve months, even allowing for seasonal patterns.

Refinery Operations

GASOLINE OUTPUT STILL STRONG IN JULY.

Input to distillation units rose 1.9 percent, year to year, for July, despite a brief reduction in operations on the Gulf Coast at the end of the month as a precaution against tropical storms. Utilization of capacity counted as operable, though calculated at over 90 percent for the month, understates the utilization rate for capacity in actual operation—which exceeded 93 percent. Comparable historical data are not available on a monthly basis before 1983, but the highest similarly-defined rate achieved in the past fifteen years is estimated to have been about 95 percent of operating capacity.

July's gasoline output stayed near June's high level of nearly 7.4 million B/D, up 2.8 percent from last July and, as in June, the highest for the corresponding month ever recorded. Distillate production rose 3.1 percent year to year.

Inventories

STOCKS RISE AT MORE THAN USUAL RATE.

With an increase about twice the size of the average of the previous five years, total stocks rose 21 million barrels during July. Gasoline stocks rose more than seasonally during July as well, increasing by 7 million barrels. Distillates' rise of 12 million barrels was about normal, bringing stock levels to 113 million barrels. This was close to end-of-month levels of recent previous Julys, which have ranged from 115 to 120 million barrels.

1/ Total supply, i.e., production plus imports adjusted for net stock change is equal to total products supplied from primary storage. Total products supplied from primary storage less exports is equal to total domestic products supplied. Information contained in this report is derived from information published in the API Weekly Bulletin and is based on historical analysis of the industry. All data reflect the most current information available to the API and include all previously published revisions.

2/ Includes lease condensate.

3/ API data do not include crude oil imported for the Strategic Petroleum Reserve (SPR) nor crude oil stocks held in the SPR (according to the U.S. Department of Energy, the SPR held approximately 574 million barrels as of July 31, 1989).

ESTIMATED UNITED STATES PETROLEUM BALANCE

(Daily Average in Thousands of 42 Gallon Barrels)

Products Supplied/Supply From Primary Storage	JULY			YEAR-TO-DATE		
	1989[1]	1988[2]	% Change	1989[3R]	1988[2]	% Change
Products Supplied:						
Total motor gasoline	7,584	7,482	1.4	7,314	7,297	0.2
Finished leaded motor gasoline*	805	1,338	(39.8)	934	1,408	(33.7)
Finished unleaded motor gasoline*	6,779	6,144	10.3	6,380	5,889	8.3
Naphtha-jet	223	212	5.2	205	211	(2.8)
Kerosine-jet	1,297	1,193	8.7	1,242	1,223	1.6
Distillate fuel oil	2,761	2,640	4.6	3,089	3,114	(0.8)
Residual fuel oil	1,174	1,217	(3.5)	1,373	1,340	2.5
All other oils[4]	4,100	4,042	1.4	4,067	4,014	1.3
Reclassified[5]	- 159	- 91	74.7	- 171	- 163	4.9
Total domestic products supplied	16,980	16,695	1.7	17,119	17,036	0.5
Exports	801	826	(3.0)	818	834	(1.9)
Total products supplied	17,781	17,521	1.5	17,937	17,870	0.4
Supply:						
Domestic production:						
Crude oil[6]	7,466	8,040	(7.1)	7,717	8,245	(6.4)
Natural gas liquids	1,604	1,618	(0.9)	1,637	1,614	1.4
Other supply[7]	850	1,125	(24.4)	900	876	2.7
Total domestic supply	9,920	10,783	(8.0)	10,254	10,735	(4.5)
Imports:						
Crude oil, total	6,377[10/]	5,058[10/]	26.1	5,607[10/]	4,967[10/]	12.9
Canadian	607	688	(11.8)	623	688	(9.4)
Other	5,770	4,370	32.0	4,984	4,279	16.5
Products, total	2,175	2,197	(1.0)	2,297	2,219	3.5
Residual fuel oil	520	479	8.6	671	584	14.9
Other	1,655	1,718	(3.7)	1,626	1,635	(0.6)
Total imports	8,552	7,255	17.9	7,904	7,186	10.0
Total supply	18,472	18,038	2.4	18,158	17,921	1.3
Stock change, all oils	+ 691	+ 517	XXXX	+ 221	+ 51	XXXX
Refinery Operations						
Input to crude oil distillation units	14,066	13,804	1.9	13,507	13,404	0.8
Operable capacity	15,576	15,958	(2.4)	15,662	15,919	(1.6)
Refinery utilization (%)[8]	90.3%	86.5%	4.4	86.2%	84.2%	2.4
Crude oil runs	13,880	13,617	1.9	13,325	13,181	1.1

Stocks (millions bbls.)	1989		1988[2]	% Change from ...	
	Jul. 31[9]	Jun. 30[9]	Jul. 31	Previous Month	Year Ago
Crude oil 10/	332.0	333.7r/	349.5	(0.5)	(5.0)
Unfinished oils	106.9	112.5	114.0	(5.0)	(6.2)
Total motor gasoline**	226.2	219.6r/	215.3	3.0	5.1
Finished leaded motor gasoline*	24.4	24.7	44.6	(1.2)	(45.3)
Finished unleaded motor gasoline*	161.9	156.2r/	134.9	3.6	20.0
Naphtha-jet	6.4	6.0	6.7	6.7	(4.5)
Kerosine-jet	41.5	40.1r/	40.1	3.5	3.5
Distillate fuel oil	112.9	101.2r/	120.0	11.6	(5.9)
Residual fuel oil	41.9	42.9r/	41.0	(2.3)	2.2
All other oils	216.7	207.1r/	191.2	4.6	13.3
Total all oils	1,084.5	1,063.1r/	1,077.8	2.0	0.6

1/ Based on API estimated data converted to a monthly basis.
2/ Source: U.S. Department of Energy.
3/ Source: January-May, U.S. Department of Energy, June-July, API.
4/ Includes crude losses.
5/ Beginning with January 1981, U.S. Department of Energy began using a new data collection system which encompasses a method to ascertain the amount of product reclassified during the production phase. So that there will be no double counting of these volumes, they are subtracted from total domestic products supplied.
6/ Includes lease condensate.
7/ Includes Unaccounted-for crude oil, Refinery input of other hydrocarbons, and Processing gain.
8/ Represents "Input to crude oil distillation units" as a percent of "Operable capacity."
9/ Derived by interpolating API weekly stocks data.
10/ Data do not include oil imported for the Strategic Petroleum Reserve (SPR) nor crude oil stocks held in the SPR.
R/ Revised.
* Included in motor gasoline.
** Includes finished leaded, finished unleaded, and motor gasoline blending components stocks.